

OPEN MEETING AGENDA ITEM



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Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

RE: Arizona Public Service Company (APS or the Company)
Possible Modifications to the Arizona Corporation Commission's (Commission)
Energy Rules
Docket No. RU-00000A-18-0284

APS appreciates the opportunity to submit these comments on Staff's recommendations and proposed order to modify the Commission's Energy Rules (Staff's Proposed Order).¹ APS recognizes the significant time and effort Staff has dedicated to this matter, and commends Staff for their thoughtful approach to modernize and consolidate the current Rules, with the ultimate goal to achieve a 100% clean energy future for Arizona.

APS Support for Clean Energy

APS has taken a leading role in both renewable and clean energy. APS's current portfolio is 50% clean, including one of the nation's largest solar fleets, wind generation, energy efficiency and clean, carbon-free nuclear energy from Palo Verde Generating Station.

In January 2020, APS announced a historic clean energy commitment, marked by the following targets:

- 100% clean, carbon-free energy by 2050
- 65% clean energy by 2030
- 45% renewable energy by 2030
- 0% coal-fired generation by 2031

¹ APS is currently evaluating all proposed amendments filed in this docket and looks forward to the discussion at the July 30, 2020 Special Open Meeting. APS will be prepared to discuss the Burns-Kennedy proposed amendment and requests the opportunity to address it as appropriate. These matters should be fully vetted for financial, operational and reliability impacts before any revisions to the existing rules are adopted.

These goals reflect the Company's commitment to a clean energy future encompassing a combination of resources and technologies that preserve Arizona's environment and power its economy, while keeping our system reliable and rates affordable for our customers.

Notably, APS embarked on this clean energy future informed by Commission interest in the same goal, and informed by the perspectives of a number of leading educational, environmental and economic development groups who support the Company's efforts, including Arizona State University, The Nature Conservancy, Greater Phoenix Economic Council and the Advanced Energy Economy.

APS Support for Staff's Overall Clean Energy Targets

APS's approach towards Staff's Proposed Order is consistent with its clean energy commitment and reflects the Company's determination to implement a clean energy plan that is sustainable both for the environment and customers.

The overall requirements utilities must achieve through a Clean Energy Implementation Plan – at least 50% of retail kWh sales from renewable energy resources by 2035 and 100% from clean energy resources by 2050 – align with the Company's Clean Energy Commitment. Along with a growing number of local, regional, and national stakeholders, APS also believes focusing on carbon emissions and overall carbon reductions is the most effective way to make progress towards a clean energy future.

Importance of Flexibility and Affordability

APS believes any standards developed by the Commission should incorporate flexibility, adaptability and simplicity to ensure customers can benefit from cleaner and potentially more affordable technology. The rules should allow for future additions of clean technologies as they are developed or become more prominent. For example, the new rules should include hydrogen derived from clean sources as a potential clean energy resource. While APS supports the direction and focus of Staff's proposed rules, the Company is concerned that the following provisions reduce flexibility and could potentially increase costs for customers. These provisions include, among others:

1. Carve-outs for distributed energy storage regardless of cost to customers;
2. Removal of applicable adjusters to recover costs of complying with the Energy Rules; and
3. Certain elements of the Integrated Resource Plan (IRP) and procurement rules could inhibit flexibility in planning, developing resource portfolios and procuring resources to meet customer needs in a timely efficient and cost effective manner.

Below are a few comments that APS believes will enhance Staff's Proposed Order.

Targets Instead of Carve-Outs

APS supports customer renewables programs and encourages the adoption of resources such as distributed rooftop solar, distributed renewable storage, demand side management (DSM) programs, and increasing levels of electric vehicles and broader electrification. The best way to support these programs is through the use of well-reasoned targets, rather than fixed carve-outs, utilizing a holistic approach that balances cost and reliability in order to avoid a cost shift.

For example, APS expects to achieve cumulative energy savings of 22% of its retail sales by the end of 2020, meeting the current Energy Efficiency Standard. In order to reach the Company's nearer-term target in 2030, APS is engaging with stakeholders to employ DSM programs tailored to high-value opportunities. These programs will encourage customers to shift power consumption into the midday peak solar hours and reduce use during the late afternoon/early evening peak demand hours to save customers money and decrease the need for additional resources to meet system peak demand.

Carve-outs would reduce the flexibility of these efforts, favoring a few technologies of today and limiting the ability to adopt competing technologies, including those yet to be developed. For instance, a behind the meter (BTM) storage carve-out favors a more expensive form of energy storage that will reduce the opportunity for other technologies to provide peak demand savings. The proposed carve-out for 10% of kWh sales to be met by distributed renewable storage reduces flexibility and has the potential to require large incentives necessary to meet the target.

APS supports customer programs to encourage adoption of such BTM technologies, especially to the degree that these programs can increase grid benefits for all customers, but the incentives should be proportional to the grid benefit. Carve-outs are also inconsistent with an all-source RFP approach.

Should such carve-outs exist in the approved Energy Rules, the ability to count all installed DG and BTM storage on a utility's system should continue to apply toward the requirement, as has been a long-standing practice in Arizona known as "track and record" established in Decision No. 74882. The Energy Rules should explicitly state that all BTM technologies count toward the standard.

Cost Recovery, Transition Period for Applicable Adjustors and Clean Energy Adjustor/Tracker

Another issue that merits further consideration concerns how utilities would recover costs for complying with the requirements of the draft Energy Rules. The costs incurred for compliance with the existing Renewable Energy Standard and Tariff and Electric Energy Efficiency Standards and Environmental Portfolio Standards are currently recovered through adjustment mechanisms. The draft Energy Rules appear to repeal these cost recovery mechanisms. APS recommends that there should be a transition period for applicable adjustors, such as REAC-1 and DSMAC, that would keep them open to allow for full cost recovery. Without a transition period, and a mechanism for timely cost recovery, there will be program delivery impacts, pauses and other delays that will negatively impact APS customers. After the transition period, APS proposes a single Clean Energy Adjustor/Tracker to cover legacy costs, and promote new investment, that includes renewables, DSM, storage, transportation electrification and other beneficial electrification.

Integrated Resource Plan

Regarding the IRP, APS appreciates the inclusion of an expanded public advisory process, including a Stakeholder Advisory Group. APS engaged a stakeholder working group representing different corners of the utility landscape throughout the development of our recently filed 2020 IRP. Their participation enabled us to test a variety of portfolios and scenarios to build an informed path forward.

Adjusting the IRP Planning Period from 15 years to 10 years focuses the dialogue on present-day technologies and the actions necessary to provide affordable and reliable service to our customers. Focusing on nearer-term forecasts provides flexibility to adjust to evolving changes in the industry and technological advances within action-plan updates and through the normal IRP update cycle.

APS is concerned that some elements of the IRP Rules could inhibit utilities' flexibility in developing resource portfolios and the planning process overall. The timing and procedures for approving as opposed to acknowledging components of the IRP deserve further examination. Also, details such as whether a load forecast approved in the Preliminary IRP can be updated for the final IRP need to be considered in this review.

Coal Community Transition is not addressed in the proposed Energy Rules, but is an important issue warranting Commission consideration in the future. Given the diverse interests affected by a clean energy transition, broad stakeholder engagement will be necessary to address options and mechanisms that mitigate the impact on communities from the accelerated retirement of any existing fossil-generation resources. This approach should balance the needs of customers, utilities, and the impacted communities.

The discussion on Staff's Proposed Order will be a major step in shaping the future of Arizona's energy policy, and APS looks forward to continuing this important conversation with the Commission, Commission Staff and stakeholders. Through this collaboration, we can collectively develop updated Energy Rules that benefit customers, enable delivery of 100% clean, carbon-free, affordable and reliable electricity and ensure Arizona remains a healthy and beautiful place to live and work.

Sincerely,

/s/ Kristie Cocco

Kristie Cocco

KC/bg

cc: Elijah Abinah, Director Utilities Division
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